SCS Agency
Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author: Baugh | Analyst: Roger Lackey | Bill Number: AB 2267

Related Bills: See Legislative History | Telephone: 845-3627 | Introduced Date: 02-19-98

Attorney: Doug Bramhall | Sponsor:

SUBJECT: Medical Care Expense Deduction/Allowed Without Regard To Expenses Exceeding 7.5% Of AGI

SUMMARY

Under the Personal Income Tax Law (PITL), this bill would allow taxpayers to deduct 100% of their medical expenses without regard to whether the expenses exceed 7.5% of adjusted gross income.

EFFECTIVE DATE

This bill would be effective for taxable years beginning on or after January 1, 1998.

LEGISLATIVE HISTORY

AB 2330 (1998), AB 3980 (89/90)

SPECIFIC FINDINGS

Current **federal and state law** provide that a taxpayer may deduct as an itemized deduction the expenses paid during the taxable year, that are not compensated by insurance, for the medical care of the taxpayer, his spouse, or a dependent, to the extent that the expenses exceed 7.5% of adjusted gross income.

For taxable years beginning on or after January 1, 1983, and ending before January 1, 1987, a taxpayer was allowed to deduct medical expenses to the extent that the expenses exceeded 5% of the taxpayer's adjusted gross income.

For taxable years prior to 1983, a taxpayer was allowed to deduct medical expenses to the extent that the expenses exceeded 3% of the taxpayer's adjusted gross income. In addition, a taxpayer was allowed to deduct one-half of the medical insurance expense incurred, but not to exceed a maximum of $150.

This bill would allow a taxpayer to deduct 100% of medical expenses as an itemized deduction incurred without regard to whether the expenses exceed 7.5% of adjusted gross income.

DEPARTMENTS THAT MAY BE AFFECTED:

____ STATE MANDATE ____ GOVERNOR'S APPOINTMENT

Board Position:	Agency Secretary Position:	GOVERNOR'S OFFICE USE
____ S ____ O ____ SA ____ OUA ____ N ____ NP ____ NA ____ NAR ____X____ PENDING	____ S ____ O ____ SA ____ OUA ____ N ____ NP ____ NA ____ NAR DEFER TO ____________	Position Approved ____ Position Disapproved ____ Position Noted ____
Department Director Date G. Alan Hunter 3/24/98	Agency Secretary Date	By: Date

Policy Considerations

This bill would create a difference between federal and California tax law. As a result, the complexity of tax return preparation would increase for the taxpayer.

Implementation Considerations

Implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

FISCAL IMPACT

Departmental Costs

This bill would not significantly impact the department's costs.

Revenue Estimate

This proposal is estimated to impact PIT revenue as shown in the following table.

Fiscal Year Cash Flow Taxable Years Beginning After December 31, 1997 Enactment Assumed After June 30, 1998 $ Millions			
1998-9	1999-00	2000-01	2001-02
($645)	($660)	($740)	($810)

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Discussion

The revenue impact for this bill would be determined by those individuals who incur medical expenses and would itemize their deductions, the cost of medical expenses, and the average marginal tax rate applicable to the deduction amounts.

This estimate was developed in several steps. First, by using the Department's PIT Model, the 7.5% floor on medical expenses was removed for taxpayers who currently claim medical deductions, generating approximately an additional $280 million tax loss for 1998. Second, by using the Department PIT Model and national averages, medical expenses were imputed to all other taxpayers in the amount of $1,155 per person (doubled if joint filers), $575 per dependent, and $3,115 for seniors, generating approximately an additional $300 million tax loss for 1998. Fourth, based on the Department PIT model, it was assumed that 100% of current taxpayers with medical expenses would claim the remaining expenses. To allow for a learning lag for some filers, it was assumed that 50% of the other taxpayers (new claimants) would actually claim qualified medical expenses in the first year (1998). It is anticipated that this percentage for the new group of taxpayers would increase up to 80% over five years. The initial 1998-9 fiscal year estimate above includes all of the 1998 year impact plus 10% of the 1999.

BOARD POSITION

Pending.